

STATEMENT BY REPRESENTATIVE CHARLIE STENHOLM
FISCAL YEAR 2002 BUDGET RESOLUTION

*House Budget Committee,
March 8, 2001*

I appreciate the opportunity to appear before the House Budget Committee to offer my views on the fiscal year 2002 budget resolution. The consideration of the budget resolution is perhaps the most important debate Congress has each year because the budget establishes our priorities for the rest of the year. The opportunities presented by the projected budget surplus will make the budget debate even more important this year. The manner in which we proceed with the budget process over the next few weeks will set the tenor and tone for the remainder of the year.

Last week, President Bush submitted a budget blueprint outlining how he proposes to fit his tax and spending priorities into an overall budget framework. We welcome this proposal as the first step in the budget process. Now it is our responsibility and we look forward to working with the president and the Congressional leadership to develop a budget resolution

Unfortunately, the Congressional leadership has chosen to shortcircuit the budget process by bringing legislation to the House floor implementing part of the tax cuts before Congress has had an opportunity to consider the entire budget. It is

ironic and disappointing that at the very time that Members of this House are being given our first opportunity to offer our input into the priorities for our nation's budget on behalf of the people we represent, we are being asked to vote on a major portion of the President's budget. Those of us in the Blue Dog Coalition believe that considering tax cuts before Congress has put in place a budget resolution is a tremendous mistake that could jeopardize the fiscal discipline that has produced record surpluses and will put at risk of returning to the era of deficit spending.

No family or business would make a decision that would have a major impact on their finances for the next ten years without first sitting down and working out a budget to figure out what they can afford. We owe it to our constituents to apply that same common sense principle to the nation's budget. It would be a disservice to our constituents to pass these tax cuts before we know if there will be enough money left to fund other priorities.

The Blue Dogs have repeatedly called for the largest possible tax cut that fits within the context of a fiscally responsible long-term budget framework that balances other priorities. Tax cuts must be part of a responsible budget with realistic spending levels and a serious commitment to paying down the national debt and strengthening Social Security and Medicare.

The projections of a budget surplus provide us with a tremendous opportunity to pay down our national debt, strengthen Social Security and Medicare for future generations, address unmet needs in defense, education, health care and other areas and provide substantial tax relief to all Americans. If we are not careful and manage the budget surplus responsibly, we will squander this opportunity and return to deficit spending.

The American people have repeatedly told us that their top priority for the surplus is paying down our national debt and strengthening Social Security and Medicare. We should decide how much of the surplus we will need to strengthen Social Security and Medicare and establish a plan to pay down our national debt before we consider tax cuts.

In 1981, Congress passed a large tax cut before agreeing on the spending cuts to pay for the tax cut. The result was a \$4 trillion increase in our national debt. We cannot afford to repeat the mistake of rushing to cut taxes before first considering how they will fit within a fiscally responsible budget. I lived through that experience 20 years ago where we allowed ourselves to believe words that sounded too good to be true. It breaks my heart to think that we may have learned nothing from our mistakes.

Financial markets will look beyond the short-term impact of fiscal policy to evaluate the long term consequences of our actions. Policies that signal to the financial markets a credible long-term commitment to fiscal discipline will have a positive impact on both short- and long-term interest rates.

Any benefits from the short-term stimulative effect of a tax cut will be eliminated if financial markets lose confidence in our commitment to long-term fiscal discipline. It is critical that any tax cuts be made in the context of a budget framework that financial markets view as a serious commitment to fiscal discipline over the long-term.

Recognize Uncertainty of Budget Projections

Enacting a large tax cut based on ten-year surplus projections that may not materialize puts us at risk of returning to the days of deficit spending. We are concerned that the President is placing too much emphasis on ten-year forecasts that may not come to fruition in order to justify the size of his tax cut and downplay the amount of debt reduction that is prudent in the short-term.

Over 70% of the projected on-budget surplus over the next ten years will occur in the second five years, when projections are especially uncertain. It is extremely dangerous to enact tax cuts now based on projections about the budget and the economy six years from now and beyond.

In 1993, the budget projections for 2001 were approximately 800 billion dollars off the mark. The Congressional Budget Office warned in their report about the new surplus projections that if today's estimates are as inaccurate by the average amount they have been off in the past, then within five years our surplus could easily be short \$400 billion *in one year alone*.

Debt reduction

The economic prosperity of recent years was due, in large part, to the conservative budget policies which turned deficits to surpluses and allowed us to begin to pay down some of our staggering \$5.7 trillion national debt. By using these surpluses to pay down some of the national debt and reducing the \$240 billion in annual interest paid on the national debt, we were able to keep individual interest rates low, saving Americans thousands of dollars annually on mortgage, car loans, credit cards and college loans -- what we consider to be the ultimate tax cut. Moreover, by paying down the debt, we were able to get the government out of the credit markets, making capital more accessible and affordable for American businesses, allowing them to continue to grow and prosper.

Federal Reserve Chairman Alan Greenspan has repeatedly reported to Congress that devoting budget surpluses to paying down the debt held by the public is the most important action we could take to maintain a strong and growing

economy. There is a broad consensus among economists increasing national savings by reducing the national debt continues to be the best long-term strategy for the U.S. economy. Reducing our national debt will provide an immediate tax cut for millions of Americans by restraining interest rates which will reduce the cost of home, student or business loans and other capital goods, while protecting our children and grandchildren from bearing the burden of the debts we have incurred.

We were pleased to see that President Bush emphasized the importance of debt reduction, which he has not done in the past. His emphasis on debt reduction is further evidence of the wisdom of the Blue Dog message of debt reduction. However, we were disappointed that the President's plan would only pay off slightly more than \$2 trillion of the \$3.4 trillion debt held by the public over the next ten years, leaving more than \$1.2 trillion in debt outstanding. The administration believes that it is not possible to pay off any more debt than that.

Only in Washington would people be worried about paying off the \$3.4 trillion debt held by the public too quickly. Having "too much" money available from the budget surplus is a "problem" that we would like to have.

Independent experts believe we can go much further in paying off the debt than the President proposes if we use prudent debt management tools to maximize

debt reduction. Estimates prepared by the non-partisan Congressional Budget Office and General Accounting Office indicate that the debt could be reduced by \$400 billion more than the Bush administration claims, for a minimum of \$818 billion in 2011 through prudent debt management such as not issuing any new ten and thirty year Treasury notes. Federal Reserve Board Chairman Alan Greenspan estimated that the debt held by the public could be reduced to \$750 billion without creating any problems. Former Treasury Undersecretary Gary Gensler estimates that with a concerted effort to eliminate the debt could bring it down below \$500 billion in 10 years. That is more than \$700 billion lower than the amount of debt reduction proposed by the President.

It will be easier for a future Congress to reduce future surpluses if we end up paying off the debt too quickly than it would be to change policies to put the budget back on a debt reduction glidepath if the surpluses are not as large as projected.

Congress should take time to make sure we are doing everything we can to use our current surpluses to pay off the debt as aggressively as possible before accepting the position that reducing the publicly held debt to \$1.2 trillion is the best we can do.

Protecting Medicare and Social Security Trust Fund Surpluses

The President's budget does not set aside the Medicare trust fund surplus, despite the fact that the House overwhelmingly passed a Medicare lockbox which would require the entire Medicare HI trust fund surplus be set aside just three weeks ago. In fact, the Medicare trust fund surplus makes up half of the so-called "contingency fund" that is available to meet other needs.

Provide resources to strengthen Social Security and Medicare.

The Congressional Budget Office has warned that, while the budget outlook is positive over the next ten years, demographic tensions will begin after 2011 with the retirement of baby boomers that will create "budgetary pressures . . . (which) can easily reverse the favorable fiscal forces that are operating today." In particular, there is a bipartisan recognition that Social Security and Medicare will face serious financial challenges in the near future.

The budget surplus provides us with the opportunity to make sure those programs continue to be strong for current and future generations. If we squander this opportunity, we run the risk of having to dramatically cut benefits or raise payroll taxes in order to keep the programs solvent.

I commend the President for making reforms to deal with the long-term problems facing the Social Security and Medicare programs a priority for your administration, and look forward to working with you to achieve this goal.

Although the Blue Dogs have not proposed specific Social Security or Medicare reforms, we have taken the position in our budgets and elsewhere that dealing with the long-term challenges facing these two programs should be our first priority in allocating the projected surplus. While there are differences about specific Social Security and Medicare reform proposals, there is a widespread recognition that any Social Security or Medicare reform package will need to rely on some additional resources from the on-budget surplus.

I personally agree with the President that we should allow individuals to invest a portion of their payroll taxes in individual accounts. Having worked on this issue for several years, I realize that creating individual accounts while meeting the President's goal of not reducing benefits for those currently retired or approaching retirement will result in transition costs that will require additional resources from general revenues in order to keep the program solvent until the benefits of individual accounts begin to accrue.

Prudence dictates that we set aside a significant portion of the on-budget surplus for Social Security and Medicare reform until Congress and the President

have reached agreement on legislation to strengthen these programs and we know how much of the surplus will be needed to make those reforms succeed.

Medicare prescription drugs

There is a bipartisan commitment to enacting a meaningful prescription drug benefit for all seniors. Congress should enact a Medicare prescription drug benefit that is available, affordable, dependable and voluntary for all beneficiaries. I strongly encourage this committee to take time to seriously consider how much money we need to set aside in the budget in order to put in place a meaningful Medicare prescription drug benefit.

New estimates from the Congressional Budget Office suggest that drug spending for the elderly and the disabled in the next decade will be much higher — perhaps 33 percent higher — than the agency predicted just 10 months ago. The Republican Chairman of the Senate Finance Committee, which will have responsibility for putting together a Medicare prescription drug plan, has indicated that as a result of these new estimates Congress will have to put more money into the budget for prescription drug coverage than the President proposed.

Strengthening the agricultural safety net

American farmers continue to face tremendous economic problems. Members on both sides of the aisle agree that we need to strengthen our farm programs to deal with the crisis facing rural America instead of resorting to ad hoc emergency packages each year.

As you know, a coalition of groups representing a cross-section of agricultural groups wrote to this Committee stressing the importance of including additional agricultural budget authority for each of the years remaining in the Budget Resolution (FY2003-FY2011) to avoid continued requests for ad hoc assistance packages. They suggested that we consider at least \$12 billion per year in additional funding needs for each of the remaining years of the Budget Resolution. Such a commitment would provide the necessary funds to cover the options currently being evaluated by the Senate and House Agriculture Committees as essential elements of the new Farm Bill.

Establish realistic spending caps that provide room to responsibly fund bipartisan priorities

A responsible budget framework must check the growth in spending while providing room to meet these priorities without relying on unspecified or unrealistic spending cuts that may not materialize. Unrealistic spending levels in recent budget

resolutions have resulted in a chaotic process that dragged on well beyond established deadlines and produced irresponsibly high spending. The President talked about the areas where he proposes to increase spending at great length, but did not provide much information about where he would reduce spending in order to pay for these initiatives as well as his tax cut.

We share the President's commitment to restraining government spending. We are willing to work with the administration and this committee to address excessive or wasteful spending. We encourage the President to submit to Congress recommendations to eliminate specific areas of waste, fraud, abuse or pork within the current budget which might reduce the overall spending levels in the future. A budget which controls spending will restore sorely needed budgetary discipline. If we can reach agreement on tough but realistic spending levels, the Blue Dogs are committed to help you hold the line against additional spending.

At the same time, we also share the President's support for investing in priority areas such as defense, education, health care and other areas. We are very interested in working with the new administration on issues such as education reform and strengthening our military. It is critical that we ensure that there will be resources available this year and in the future to back up our rhetoric with funding to accomplish these goals without relying on promises of unrealistic spending cuts that

may never materialize. Promises about reforming education and strengthening our military will be hollow if we enact large tax cuts that don't leave room to fund these areas.

The President has proposed education reforms to improve our nation's educational system and establish greater accountability for public schools. Calling on our schools to meet increased standards without providing resources to help schools meet these standards will result in another unfunded mandate.

The budget blueprint submitted by the President did not include increased funding to address our unmet needs in national defense. The President has indicated that he will wait until the Department of Defense has completed a strategic review before proposing more money for defense. However, there may not be money left to increase defense spending when the review is completed if we enact tax cuts without putting together a budget that leaves room for increased defense spending.

Conclusion

Budgeting requires making choices. This Committee faces some tough choices in balancing several worthwhile priorities within a fiscally responsible budget framework. We should create a budget framework that commits the budget surpluses that materialize over the next ten years to our important priorities, but does not lock us in to policies that depend on uncertain ten-year budget estimates.